

A slow revolution to protect the poor and vulnerable?

The International Monetary Fund's Social Spending Strategy 2019

Viljam Engström

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The International Monetary Fund (IMF) is the “single most influential international actor not only in relation to fiscal policy but also to social protection”. This is how the Special Rapporteur on extreme poverty and human rights [has recently characterized](#) the IMF. The statement recognizes the importance of IMF policy-making for the sustainable financing of social protection frameworks. In June 2019 the IMF acknowledged this role with the adoption of the [Strategy for IMF Engagement on Social Spending](#). As the Strategy was launched Managing Director Christine Lagarde [declared](#) that social spending must now “take its rightful place at the center of macroeconomic policy discussions”, thereby indicating that concern for protecting the poor and vulnerable should constitute core objectives of IMF policy-making.

The Social Spending Strategy is for the time being the peak of burgeoning IMF social protection engagement. It is an additional step in a gradual move by the IMF towards recognizing the social dimension of its policy-making. Already since 2010 the IMF [has required](#) a “social and other priority spending” target in low-income country programs. This includes in particular minimum floors for social spending, and specific measures to protect vulnerable groups. In 2014, the [Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines](#) explicitly introduced vulnerability as a parameter to take into account in IMF policy-making by requiring that “if feasible, any adverse effects of program measures on the most vulnerable should be mitigated”. IMF statistics [display a rising trend](#) of including spending floors in country programs. Moreover, the protection of vulnerable groups has also been embedded into [conditionality](#).

The [Guidance Note for Surveillance Under Article IV Consultations](#) (2015) states that surveillance should cover all member's policies that affect the member's economic stability. While this always includes exchange rate, monetary, fiscal and financial sector policies, other policies should be assessed if they are macro-critical, that is, if they affect the financial stability of the country. The IMF's treatment of gender equality illustrates well how a changing conception of macro-criticality has enabled the IMF to expand the [scope of its advice](#). Although [by IMF Management still described](#) as an “emerging macro critical” issue, [others](#) go as far as to call the IMF a “global leader” in highlighting gender inequality. For some time, such inequality has [been associated with less sustained growth](#). Research on the macro-economic dimension of inequality culminated in the [Guidance Note for Surveillance](#). Gender issues have also been included in structural conditionality (for example in respect

of [Jordan, Egypt, and Niger](#)). In 2018, the IMF released a note on [Operationalising Gender Issues in Country Work](#). Accordingly, country teams should cover gender issues where they are deemed macro-critical or when requested by the authorities. Also, IMF staff may need to consider alternative policies in order not to exacerbate gender inequality.

The Social Spending Strategy – not ground-breaking...

The Strategy recaptures IMF social protection engagement so far, and provides a guide for IMF engagement on social spending, especially with a view to making this engagement more systematic and effective. The basic message is that social spending is a key policy lever for, *inter alia*, promoting inclusive growth, addressing inequality, and protecting vulnerable groups. In other words, the Strategy affirms that distributional objectives are in IMF policy-making to be seen as compatible with economic growth.

As the [2019 Social Spending Strategy](#) was preceded by stakeholder consultation, expectations were high among both civil society institutions and [academic communities](#). Yet, in light of current IMF social protection engagement, the Strategy does not stand out as revolutionary. It rather confirms and synthesizes the approach of the IMF to social protection, which so far has been scattered across a range of policy instruments. Unsurprisingly, therefore, also critique was soon to come. So far, that critique has focused on familiar themes. The Strategy is targeted for being a too narrow and partial approach to social protection, and for [reducing social protection to mere mitigation of](#) adverse effects of austerity. While the practice of spending floors is welcomed (and should be, as it echoes the approach of the [ILO and the Sustainable Development Goals](#) to poverty), IMF practice is accused for being inadequate, and for [preferring targeted protection schemes](#). The Strategy, in short, is [seen to fail to align](#) the IMF institutional position with a human rights-based approach.

... yet one more step in a necessarily “slow revolution”?

Is the Strategy nothing but another wasted opportunity? Such a verdict seems too harsh. Any expectation that the Strategy was going to overhaul the IMF operational perspective overnight is unrealistic. The IMF’s main purpose, as defined in the [Articles of Agreement](#), is to ensure the stability of the international monetary system, and to facilitate the expansion and balanced growth of trade. The principle of respecting member country [domestic and social policies](#), and the requirement of ‘macro-criticality’ of IMF engagement, are inherent to and define the functions of the Fund. Any change can therefore only come about through a reinterpretation of the mandate of the IMF – a process that is bound to be gradual.

In this light, the Strategy seeks to add to the IMF social protection engagement, for example, through illuminating core concepts such as “macro-criticality” and “social spending”. When defining “macro-criticality” [the Strategy holds that](#) social spending can become macro-critical through fiscal sustainability, spending adequacy and spending efficiency concerns. Especially the adequacy aspect opens the door for assessing the [protection of vulnerable groups](#). While the protection of vulnerable

groups is particularly urgent during adjustment, the Strategy also recognizes the macro-criticality of some groups beyond country programs (such as the elderly, women, and youth), all of which also enjoy enhanced protection in human rights law. Also the definition of social spending adopted (defined as social protection, health and education spending) clearly echoes a [human rights-based approach](#).

The Strategy acknowledges that there has been an “overly narrow focus on means-tested targeting and insufficient focus on the quality of spending”. Along with the [accompanying background paper](#), this suggests that there may be room also for universal protection schemes in designing social spending (the alleged categorical rejection of which has been a major [source of criticism](#) of the Fund). The express reference to “progressive universalism” as a guiding principle of transfer policies may be as far a recognition of universal schemes that can realistically be expected from the IMF (given that fiscal space always also remains a competing concern). This vocabulary also positions the approach of the Fund in a more nuanced discourse on the [targeting / universalism dichotomy](#).

It is certainly true that the realization of social protection will require much more than a commitment on paper. Nor does the Strategy preclude the IMF from using adjustment as a means of addressing balance of payments problems. What the Strategy does, however, is to engage the IMF in a discourse on the meaning of social protection as well as on concepts such as vulnerability. As the Strategy affirms the importance of protecting vulnerable groups and encourages the use of spending floors, it also confirms the protection of vulnerable groups as part of the institutional law of the IMF. This way protection of vulnerable groups and the use of spending floors also become criteria by which to assess the performance of the IMF (irrespective of the possibility to impose human rights obligations on financial institutions). In endorsing the Strategy on Social Spending, the [Executive Board noted](#) that “staff is expected to strengthen its focus on social spending in line with the agreed strategy”. The Strategy opens the door for further broadening the values to be taken into account in trade-offs, and encourages staff to elevate the status of social concerns in the competition with other macro-critical considerations. The corresponding staff guidance to be adopted by the end of 2020 will hopefully confirm the ongoing “slow revolution” by further deepening the IMF social protection commitment.

[Viljam Engström](#) is University teacher of constitutional and international law at Åbo Akademi University (Turku, Finland), and a researcher within the Academy of Finland funded research project [Vulnerability as Particularity — Towards Relativizing the Universality of Human Rights?](#) (RELAY). Viljam further explores the themes of the blog in articles on protection floors, and on the IMF and protection of vulnerable groups.

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